NORTHERN PIPELINE AGENCY CANADA

2010–2011 Estimates

Report on Plans and Priorities

The Honorable Christian Paradis, P.C., M.P.
Minister Responsible for
Northern Pipeline Agency

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Commissioner's Message

It is my pleasure to present the *2010–2011 Report on Plans and Priorities* for the Northern Pipeline Agency (the Agency).

The Agency was established by the *Northern Pipeline Act* (the Act) in 1978 to facilitate the planning and construction by Foothills Pipe Lines Limited (Foothills) of the Canadian portion of the Alaska Highway Gas Pipeline Project and to maximize social and economic benefits from its construction and operation, and minimize any adverse effects. The pipeline, also referred to as the Alaska Natural Gas Transportation System, was certificated in 1978 and is intended to transport Alaskan and possibly northern Canadian natural gas to southern markets in Canada and the United States (U.S.).

The southern portion of the pipeline was constructed in the early 1980's and presently transports Canadian gas sourced from south of the 60th parallel. Unfavourable economic conditions led to indefinite delays in the completion of the northern portion of the pipeline, and consequently, the Agency's activities were limited to overseeing the expansion of the southern portion of the pipeline.

Recently, growing North American demand for natural gas, limitations on its supply from conventional sources and strong natural gas prices have rekindled interest in exploring options for bringing northern gas to markets. In response, the Agency has been taking measures to address the commitments of the Government of Canada that are embodied in the Act.

During the period of this report, the Agency will continue to work together with other federal agencies, provincial and territorial governments, Aboriginal organizations and the public to meet the objectives of the Act.

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Cassie J. Doyle
Commissioner

Section I – Overview

1.1 Summary Information

Raison d'être and Responsibilities

The Agency was created by the Act in 1978 to carry out federal responsibilities in respect of the planning and construction by Foothills of the Canadian portion of the ANGTS.

The project, also referred to as the Alaska Highway Gas Pipeline Project, is the subject of the 1977 *Agreement between Canada and the United States of America on Principles Applicable to a Northern Natural Gas Pipeline*.

The first stage of the project (the Prebuild) was constructed in the early 1980's for the initial purpose of transporting gas sourced from Western Canada to the U.S. The current flow capacity of the Prebuild is approximately 3.3 billion cubic feet (bcf) per day.

The second stage of the project would link the Prebuild with U.S. reserves at Prudhoe Bay in Alaska. Unfavourable economic conditions from the mid–1980's to the beginning of the last decade led to indefinite delays in the completion of the ANGTS and a prolonged period of low activity for the Agency. In 2008, TransCanada Alaska PipeLines was selected by the State of Alaska under the *Alaska Gas Inducement Act* to receive up to $500 million (M) in State assistance to pursue an Alaska gas pipeline. The large-scale project would transport 4–5 bcf per day of natural gas in a burried 48-inch, high-pressure pipeline from Prudhoe Bay, Alaska, to markets in Canada and the lower 48 states. Project costs have been estimated at $32 – $41 billion (B) by TransCanada PipeLines Limited (TransCanada).

TransCanada has communicated its project time-line to the Agency, including its intention to proceed with planning for the Canadian portion of the project, and has asked the Agency to undertake various preparatory activities.

Under the Act, the Agency can be called to undertake a number of activities:

- Facilitate the efficient and expeditious planning and construction of the pipeline taking into account local and regional interests, the interests of the residents, particularly the Aboriginal people, and recognizing the responsibilities of the Government of Canada and other governments, as appropriate, to ensure that any Aboriginal claims related to the land on which the pipeline is to be situated is dealt with in a just and equitable manner;

- Facilitate, in relation to the pipeline, consultation and coordination with the governments of the provinces, the Yukon Territory and the Northwest Territories;

- Maximize the social and economic benefits from the construction and operation of the pipeline while at the same time minimizing any adverse effect n the social and environmental conditions of the areas most directly affected by the pipeline; and

- Advance national economic and energy interests and to maximize related industrial benefits.

Planning Context

The challenge for the Agency is to be in a state of readiness for stage two of the pipeline. Since the Act came into force, the external environment relevant to environmental and public considerations, prior to the commencement of construction, has changed significantly. Some of the changes in Yukon include new environmental legislation, devolution of some federal responsibilities and settlement of most Aboriginal land claims along the pipeline route.

The Agency will need to develop regulatory processes which fully meet modern environmental standards and respect the rights of Aboriginal people. Simultaneously these processes must respect the rights granted to Foothills under the Act and recognize the continuing validity of the existing certificates. To carry out these responsibilities, the Agency is working closely with relevant federal departments, principally Indian and Northern Affairs Canada, the National Energy Board (NEB), Department of Foreign Affairs Canada and Natural Resources Canada (NRCan).

As a small organization, the Agency obtains some administrative services from NRCan and is benefiting from the shared services initiative launched by that department in 2004.

Risk Analysis

The Agency is faced with uncertainties associated with planning for a single large-scale international pipeline project. The Agency identifies and responds to these uncertainties by continuous corporate-level forecasting, tracking and management of issues that could affect or require a response from the Agency. For fiscal year 2010–2011, the key challenge for the Agency is to ramp up activities and human resource levels in anticipation of the project proceeding in a compressed time frame. Failure to make timely preparations could jeopardize the Government of Canada's performance of its responsibilities under the 1977 Canada–U.S. Agreement and the Act, and pursuant to TransCanada's rights related to its existing *Certificates of Public Convenience and Necessity*, and its existing pipeline easement in the Yukon.

Strategic Outcome and Program Activity Architecture (PAA)

The Agency has a single strategic outcome and a single program activity. Both are aligned with the Government of Canada's Strong Economic Growth outcome as per the Whole-of-Government-Framework.

Agency Strategic Outcome:

The planning and construction of the Canadian portion of the Alaska Highway Gas Pipeline project is efficient and expeditious while ensuring environmental protection and social and economic benefits for Canadians.

Agency Program Activity:

Oversee the planning and construction of the Canadian portion of the Alaska Highway Natural Gas Pipeline Project.

Regulate the planning and construction of the Canadian portion of the Alaska Highway Natural Gas Pipeline Project.

1.2 Planning Summary

Financial Resources

2010–2011	2011–2012	2012–2013
1,321.2	1,321.2	1,321.2

Human Resources

2010–2011	2011–2012	2012–2013
4 FTEs	4 FTEs	4 FTEs

Contribution of Priorities to Strategic Outcomes

To achieve results for Canadians over the period of this three-year financial plan, the NPA has one strategic priority in respect of its strategic outcome:

Priority	Type	Planned Spending*		
		2010–2011	2011–2012	2012–2013
To effectively administer the Act in respect of any prebuild expansions and establish the framework to respond to the reactivation of Phase II of the pipeline.	ongoing	1,321.2	1,321.2	1,321.2

*Expenditures and human resource requirements for the planning period are summarized in the table. It should be noted that the NPA's costs are not borne by the taxpayer. The NPA recovers 100% of its operating costs from Foothills through existing authorities pursuant to section 29 of the Act and determined in accordance with section 24.1 of the NEB Act and the *National Energy Board Cost Recovery Regulations*.

Expenditure Profile

1. Departmental Planned Spending and Full Time Equivalents

($ thousands)	Forecast Spending 2009–2010	Planned Spending 2010–2011	Planned Spending 2011–2012	Planned Spending 2012–2013
Facilitation of the planning and construction of the Alaska Highway Gas Pipeline	264.2	**1,321.2**	1,321.2	1,321.2
Budgetary Main Estimates	264.2	**1,321.2**	1,321.2	1,321.2
Total Main Estimates	264.2	**1,321.2**	1,321.2	1,321.2
Adjustments *	425.4		-	-
Total Planned Spending**	689.6	**1,321.2**	1,321.2	1,321.2
Less: Non-respendable revenue **	713.6	**1,345.2**	1,345.2	1,345.2
Plus: Cost of services received without charge	24.0	**24.0**	24.0	24.0
Net Cost of Program	0.0	**0**	0	0

Full Time Equivalents	2	**4**	4	4

* 413,200 - Supplementary B Adjustments
12,200 - Carry Forward from 2008-2009
425,400 - Adjustment for 2009-2010.

** Reflects the forecast total planned spending to the end of the fiscal year.

2. Non-respendable Revenue

($ thousands)	Forecast Revenue 2009–2010	**Planned Revenue 2010–2011**	Planned Revenue 2011–2012	Planned Revenue 2012–2013
Northern Pipeline Agency Canada Facilitation of the planning and construction of the Alaska Highway Gas Pipeline	702.0	**1,345.2**	1,345.2	1,345.2
Total Non-Respendable Revenue	702.0	**1,345.2**	1,345.2	1,345.2

3. Net Cost of Program for 2010–2011

($ thousands)	Total
Planned Spending (Budgetary and Non-budgetary Main Estimates plus adjustments)	**1,321.2**
Plus: Services received without charge	
Accommodation provided by Public Works and Government Services Canada (PWGSC)	**0.0**
Contributions covering employer's share of employees' insurance premiums and expenditures paid by TBS	**0.0**
Costs provided by other departments	**24.0**
	24.0
Less: Non-respendable Revenue	**1,345.2**
2010–2011 Net Cost of Program	**0.0**

Voted and Statutory Items displayed in the Main Estimates

Vote or Statutory Item	Truncated Vote or Statutory Wording	2010–2011 Main Estimates	2009–2010 Main Estimates
30	Program Expenditures	1,203.0	244
(S)	Contributions to employee benefit plans	118.2	20
Total Agency		1,321.2	264

Section II – Analysis of Program Activity by Strategic Outcome

2.1 Strategic Outcome – *The planning and construction of the Canadian portion of the Alaska Highway Gas Pipeline project is efficient and expeditious while ensuring environmental protection and social and economic benefits for Canadians.*

Analysis by Program Activity

Program Activity: Oversee the planning and construction of the Canadian portion of the Alaska Highway Natural Gas Pipeline Project.

Regulate the planning and construction of the Canadian portion of the Alaska Highway Gas Pipeline Project. This program activity is aligned to the Strong Economic Growth outcome.

Financial Resources

2010–2011	2011–2012	2012–2013
1,321.2	1,321.2	1,321.2

Human Resources

2010–2011	2011–2012	2012–2013
4 FTEs	4 FTEs	4 FTEs

Expected Results: In concert with other federal government departments, the Agency will develop a regulatory framework which accommodates modern environmental practices, takes into account the rights of Aboriginal people, and considers the interests of provincial-territorial governments, so as to be prepared to effectively regulate and to facilitate the planning and the construction of the Foothills pipeline. The Agency's activities are dictated by the timing and pace of the planning and construction of the pipeline.

Performance Indicators: The Agency will effectively plan for and respond to any regulatory filings by Foothills and make certain that the Act is properly administered.

The Agency will continue to address regulatory certainty by establishing a framework to proceed with the construction of the northern portion of the pipeline within a time frame that corresponds with industry decisions on the project. The timing of these decisions is affected by such considerations as project economics, natural gas markets and negotiations between Foothills and Alaska gas producers, and therefore, is unpredictable.

To allow the Agency to prudently refine its plans and state of readiness to respond and to enhance its engagement with other participants that would be involved in the planning and the construction of this phase of pipeline development, an adequate level of staff will be hired.

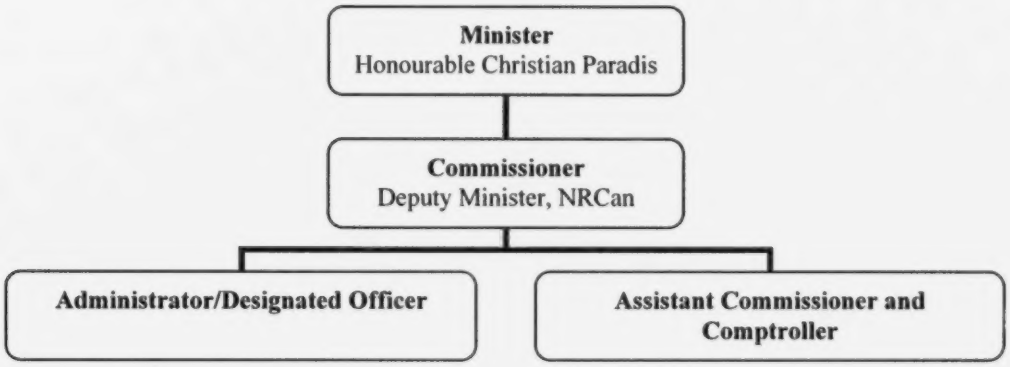
Benefits for Canadians: The planning and construction (estimated at $26B) of stage two of the Alaska Gas Pipeline Project would support job creation and economic growth throughout Canada. The pipeline would also provide incentive for gas exploration and infrastructure for moving Yukon and other northern gas resources to markets.

Section III – Supplementary Information

3.1 Organizational Information*

The Agency has been designated as a department for the purposes of the *Financial Administration Act*. The Agency currently reports to Parliament through the Minister of Natural Resources Canada who is responsible for the management and direction of the Agency. The Agency has one senior officer, a Commissioner appointed by the Governor in Council. The Commissioner is currently the Deputy Minister of Natural Resources Canada. Its organizational structure is defined by the Act. The Commissioner has appointed a full-time Assistant Commissioner of the Agency.

The figure below provides a schematic of the reporting relationship of the key officers responsible for the Agency's program activity.



3.2 Legislation Administered by the Agency

The Minister has sole responsibility to Parliament for the following act:
Northern Pipeline Act (R.S.C., 1977-78,c.20,s.1)
The Minister shares responsibility to Parliament for the following regulations:
National Energy Board Cost Recovery Regulations (SOR/91-7, 1991 Canada Gazette Part II, p.15)

3.3 Other Items of Interest

United States/Alaska Initiatives

Interest in the Alaska pipeline was revived in the early 2000's by the ongoing strengthening in natural gas markets. An important development was the passage of U.S. federal legislation in 2004 which provided loan guarantees, fiscal lift and established time lines for regulatory approval processes for a project bringing Alaska natural gas to markets. The February 2006 announcement of a draft fiscal contract between the former Alaska Administration and the North Slope natural gas producers (British Petroleum, ExxonMobil and ConocoPhillips) further intensified interest in the project. However, the draft natural gas fiscal contract did not receive Alaskan Legislative support and ultimately failed.

The former Alaska Governor, Sarah Palin, made an Alaska natural gas pipeline a priority for her government. Ms. Palin introduced new legislation, the *Alaska Gas Inducement Act*, on March 2, 2007. This new act is designed to induce construction of the pipeline and offer a transparent, expedient and competitive process to strike the right balance for the State, project proponents, gas producers and the U.S. In August 2008, the Alaska government selected TransCanada/Foothills for a licence under *Alaska Gas Inducement Act*. The State of Alaska will provide TransCanada up to $500M towards the planning for a pipeline.